

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3800-01  
Bill No.: HB 1642  
Subject: Tax Credits; Employees - Employers; Children and Minors  
Type: Original  
Date: February 15, 2010

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Bill Summary: This proposal authorizes a tax credit for employers who hire certain high school students for summers jobs.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
General Revenue	(\$168,816)	(\$81,871) to (\$3,106,234)	(\$84,327) to (\$3,122,640)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>(\$168,816)</b>	<b>(\$81,871) to (\$3,106,234)</b>	<b>(\$84,327) to (\$3,122,640)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Note:** The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	1 FTE	1 - 2 FTE	1 - 2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 - 2 FTE</b>	<b>1 - 2 FTE</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

In response to a similar proposal from 2009 (HB 88), officials from the **Office of Administration - Budget and Planning** stated the legislation will establish a tax credit for employers who hire qualified high school students for summer employment. This program has a cumulative cap of \$3 million annually, so general and total state revenues may be reduced up to that amount each year.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the proposal would allow a taxpayer to claim a tax credit equal to 35% of the amount paid to a qualified high school student in wages for summer employment. The amount of the tax credit shall not exceed the taxpayer's state tax liability and such taxpayer shall not be allowed to claim a credit in excess of \$50,000. The cumulative amount of tax credits claimed by all taxpayers under this program shall not exceed \$3 million in any one fiscal year.

The proposal requires DESE to establish a procedure by which a taxpayer can determine if a student is a qualified high school student, and by which such taxpayer can then claim a tax credit.

DESE does not currently collect individual student records and would have no knowledge of a student's GPA. DESE would have to collect the GPA of every student, in addition to parental approval, and develop a system which has the ability to cross reference minimum attendance requirements, and free or reduced lunch eligibility. Adding an additional element to student data collection will cost approximately \$100,000. In addition DESE would require 1.0 FTE director to implement this program and review claim forms annually.

School districts will likely incur costs to collect and send data to the department on a continual basis. A big issue for school districts will be parental approval. Grade point averages and free and reduced lunch status are not items of public information. The National School Lunch Act does not allow the dissemination of free and reduced lunch status. Parental approval would be required for every child.

DESE assumes the total cost of the FTE to be roughly \$100,000 per year in addition to the \$100,000 programming costs in FY 2010.

**Oversight** has, for fiscal note purposes only, adjusted the salary and benefits of the director to correspond with the range for starting salaries posted by DES for a similar position and has excluded travel costs, assuming the program could be administered with minimal travel.

ASSUMPTION (continued)

**Oversight** assumes administrative costs incurred by school districts will be absorbed with existing resources.

**Oversight** compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 85 percent to 106 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 95 percent of tax credits issued. Assuming \$3 million in annual issuance from this program, Oversight would assume roughly \$2.85 million would be redeemed annually.

**Oversight** will range the fiscal impact of the new tax credit program from \$0 (no taxpayers taking advantage of the tax credit) to the annual cap of \$3,000,000. This tax credit is for tax years beginning on or after January 1, 2011; therefore, there could be a reduction in revenue collections in FY 2012. **Oversight** has shown the full cost of the tax credits in the General Revenue Fund, although the tax credits could be used by insurance companies and result in fiscal impact to other state and local funds.

Officials from the **Department of Revenue (DOR)** state their Personal Tax section would require one Revenue Processing Technician I (at \$25,380 annually) for every 6,000 credits claimed. DOR assumed their Corporate Tax Section would also require one Revenue Processing Technician I for every 6,000 credits claimed. DOR assumes the cost of these additional FTE to total roughly \$86,000 per year

DOR's response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$26,712 (or the value of 1,008 FTE hours to make programming changes to the individual income tax processing system (MINITS) and the corporate income tax processing system (COINS)).

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

In response to a similar proposal from 2009 (HB 88), DOR assumed they could administer the program with one additional FTE; therefore, Oversight has reduced the number of FTE needed accordingly. **Oversight** has, for fiscal note purposes only, adjusted the starting salary for the additional position to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted equipment and expense amounts in accordance with OA budget guidelines. **Oversight** assumes that one additional employee could be accommodated in existing office space. If unanticipated additional costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

**Oversight** assumes DOR's estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,600.

**Oversight** assumes that tax returns utilizing the new credit would not be filed with the Department of Revenue until January, 2012; therefore, Oversight will estimate the cost of the additional FTE for DOR for only six months in FY 2012 and for a full year in FY 2013. Oversight is unsure if enough credits will be filed with tax returns to warrant the additional FTE for DOR, therefore, Oversight will range the cost of the DOR FTE from \$0 to the estimated cost.

In response to a similar proposal from 2009 (HB 88), officials from the **Department of Insurance, Finance, and Professional Regulation (DIFP)** stated it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. DIFP estimates that from \$0 to \$3 million per year could be lost in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by this tax credit each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation; However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

ASSUMPTION (continued)

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**This proposal could reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE</b>			
<u>Costs - Department of Elementary and Secondary Education</u>			
Personal Service (1.0 FTE)	(\$42,754)	(\$52,843)	(\$54,429)
Fringe Benefits	(\$22,420)	(\$27,711)	(\$28,543)
Expense and Equipment	(\$3,642)	(\$1,317)	(\$1,355)
Data system updates	<u>(\$100,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Costs - DESE</u>	(\$168,816)	(\$81,871)	(\$84,327)
FTE Change - DESE	1 FTE	1 FTE	1 FTE
<u>Costs - Department of Revenue</u>			
Personal Service (0 or 1 FTE)	\$0	\$0 or (\$12,031)	\$0 or (\$24,783)
Fringe Benefits	\$0	\$0 or (\$6,309)	\$0 or (\$12,996)
Expense and Equipment	<u>\$0</u>	<u>\$0 or (\$6,023)</u>	<u>\$0 or (\$534)</u>
<u>Total Costs - DOR</u>	\$0	\$0 or (\$24,363)	\$0 or (\$38,313)
FTE Change - DOR			
FTE Change - DOR	0 FTE	0 -1 FTE	0 -1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2011 (10 Mo.)	FY 2012	FY 2013
Loss - Tax credits of 35% of amount paid to a qualified high school student in wages for summer employment	<u>\$0</u>	\$0 to <u>(\$3,000,000)</u>	\$0 to <u>(\$3,000,000)</u>
<b>ESTIMATED NET EFFECT TO GENERAL REVENUE FUND</b>	<b><u>(\$168,816)</u></b>	<b><u>(\$81,871) to (\$3,106,234)</u></b>	<b><u>(\$84,327) to (\$3,122,640)</u></b>
Estimated Net FTE Change for General Revenue	1 FTE	1 - 2 FTE	1 - 2 FTE

**Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### FISCAL IMPACT - Small Business

If a small business employs a qualified high school student for summer employment and pays them more than \$100, that business would be able to claim the tax credit created by this proposal.

#### FISCAL DESCRIPTION

Beginning January 1, 2011, this bill authorizes a tax credit for employers who hire qualified high school students for summer jobs. The tax credit is equal to 35% of the wages paid to the student employee, but can only be claimed if the employer pays the student at least a total of \$100. An employer can claim up to \$50,000 per year. The program has a cumulative annual cap of \$3 million. The credit is nonrefundable, but can be carried forward up to four years.

FISCAL DESCRIPTION (continued)

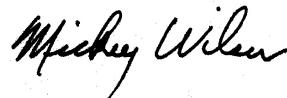
To qualify, a student must be currently enrolled as a junior or senior in high school, meet minimum attendance requirements, earn at least a 2.0 grade point average, and be eligible for the federal free or reduced-price school lunch program. Students who are home schooled and meet these requirements are also eligible. The Department of Elementary and Secondary Education must establish a procedure by which an employer can determine if he or she is eligible to receive the tax credit based on if the student employee qualifies. The department must also track students for whom employers receive this tax credit.

The provisions of the bill will expire December 31 six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Elementary and Secondary Education  
Department of Revenue  
Office of Administration - Budget and Planning  
Department of Insurance, Financial Institutions and Professional Registration  
Office of the Secretary of State



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Director  
February 15, 2010